DM/74/69

INTERNATIONAL MONETARY FUND

Fiscal Affairs Department

Sales Taxation in Francophone Africa*

Prepared by John R. Hill

Approved by R.M. Bird

July 15, 1974

Contents | Page

*The author is indebted to Mr. A. M. Abdel-Rahman for helpful comments and suggestions.

Contents | Page

Tables

I. Introduction

This paper considers the sales tax systems of 15 developing countries in Africa and Madagascar, all of which were either former territories of France or United Nations trusteeships administered by France.1/ Prior to independence, the areas currently known as Dahomey, Guinea, Ivory Coast, Mali, Mauritania, Niger, Senegal, and Upper Volta formed the Federation of French West Africa (Afrique Occidentale Française--AOF). Togo was administered by France under United Nations trusteeship. The four countries now known as the Central African Republic, Chad, the Congo, and Gabon formed the Federation of French Equatorial Africa (Afrique Equatoriale Française--AEF). East Cameroon, which had been under French trusteeship until 1960, was joined in October 1961 by West Cameroon (formerly the Southern Cameroons under British trusteeship) to form the Republic of Cameroon.2/

The purpose of this paper is to describe and evaluate the role of sales taxation in these 15 developing countries. Section II explores the historical antecedents of the existing sales tax systems and traces their development to the present. Section III describes the main features of the present sales tax systems, including the structure of exemptions and rates. Section IV analyzes the relative importance of sales taxes and their recent revenue performance in francophone African countries. Finally, Section V assesses briefly the likely effects of these sales tax systems on growth, price stability, resource allocation, and distribution.

II. Sales Taxation in Historical Perspective

The current tax systems of francophone Africa clearly reflect the fact that under the colonial regime the tax policies and administrative procedures of the metropolis were extended to the overseas territories. Following independence each of the 15 countries adopted its own national tax code, but after more than a decade of subsequent reforms these systems remain noticeably in the French tradition.

1/ The only exception is West Cameroon, a former British trusteeship that merged with French-speaking East Cameroon to form the Federal Republic of Cameroon on October 1, 1961. The 15 countries are Cameroon, the Central African Republic, Chad, the Congo (not to be confused with the Democratic Republic of Congo, which was recently renamed Zaïre), Dahomey, Gabon, Guinea, Ivory Coast, the Malagasy Republic, Mali, Mauritania, Niger, Senegal, Togo, and Upper Volta. Throughout this paper all 15 countries (including the Malagasy Republic) will be referred to as francophone Africa.

2/ Following a referendum held on May 20, 1972 the federal system was changed to a unitary form of government now known as the United Republic of Cameroon.

1. The colonial period

A general sales tax was first introduced in French West Africa in 1942 in the form of a multiple-stage transactions tax of 2 per cent on sales of goods and services.[1/] This tax on domestic transactions, which was collected by the Federation for its general budget, was supplemented by a levy of 2 per cent (taxe compensatrice) on imported goods destined for immediate consumption. Since relatively few commodities were manufactured at the time, the tax was paid mainly by importers, wholesalers, and large retailers.

Throughout World War II and the immediate postwar period the territorial budgets experienced chronic deficits that strained the resources of the Federation's general budget. In response to this prolonged financial crisis, the Federation in 1947 authorized the territories to introduce their own sales taxes. In 1949 Senegal therefore adopted its own multiple-stage tax (taxe locale sur le chiffre d'affaires) on domestic transactions. Similar taxes were introduced in most of the territories in French West Africa over the next two years. Niger and Upper Volta, however, chose not to introduce a sales tax at this time. From a legal point of view these territorial sales taxes were independent of the Federation's transactions tax even though both taxes were levied on the same base. The only exception was in Guinea where sales of bananas, citrus fruits, and pineapples, which were exempted from the Federation's transactions tax, were subject to the territorial sales tax.

Sales taxation in French Equatorial Africa developed somewhat differently, reflecting the difference in the economic structures of the two regions. Both domestic manufacturing and international trade were significantly less important in French Equatorial Africa than in French West Africa. As a result of this narrow tax base no levy was imposed on domestic transactions to finance the general budget of the Federation. However, just prior to World War II, sales taxes on imports and exports (taxe sur le chiffre d'affaires à l'importation and taxe sur le chiffre d'affaires à l'exportation) were levied by the Federation for its general budget. By 1947, the rates of these taxes, initially 2 per cent, had been increased to 6 per cent on imports and 4 per cent on exports.

1/ The model for this tax was the transactions tax (taxe sur les transactions) introduced in France in 1920. For a comprehensive discussion of the economic, legal, and political aspects of this tax in France, see Carl S. Shoup, The Sales Tax in France (New York: Columbia University Press, 1930).

During the immediate pre-World War II period the local budgets of the territories of French Equatorial Africa experienced large deficits as a result of heavy operating expenses and a narrow tax base. Despite substantial subsidies from France, the financial situation remained so grave that the territorial budgets were finally abolished, and all financial authority was centralized in the Federation. After the reinstatement of these local budgets in 1947, the territories of French Equatorial Africa adopted sales taxes similar to those in French West Africa.

As shown in Table 1, sales tax revenues from domestic transactions were far more important in French West Africa than in French Equatorial Africa, where the Federation did not levy its own sales tax. In 1952, such revenues accounted for almost 20 per cent of tax revenues in French West Africa compared to less than 2 per cent in French Equatorial Africa. Sales tax revenues from domestic transactions were about equally important in most of the territorial budgets of both federations, however, with the exception of Ivory Coast and Senegal where domestic manufacturing was concentrated.

These sales tax systems remained intact until the federations were abolished in 1956 and overall fiscal authority transferred to the territorial councils. This administrative reorganization eliminated the general budgets of the federations and paved the way for significant sales tax reforms in most of the territories. The multiple-stage levies were gradually replaced by single-stage manufacturers' taxes modeled on the French sales tax of 1948.1/ Guinea, Ivory Coast, and Niger adopted the manufacturers' tax before independence; in the case of Niger, this was in fact the first sales tax introduced by the territorial authorities.

2. Developments following independence

The abolition of the federations was followed by independence in 1960 (1958 for Guinea). Fiscal authority was thereafter vested in the new national governments, and sales tax reforms naturally lost some of the uniformity that characterized them before independence. Nevertheless, the replacement of the multiple-stage taxes by the manufacturers' tax in the countries mentioned above initiated a change that spread throughout the area in the following years, culminating in 1963 when the tax was introduced in East Cameroon.

1/ The multiple-stage transactions tax in France was replaced in 1936 by a single-stage tax on manufacturers (taxe sur la production) with an accompanying levy on services (taxe sur les prestations des services). Under this tax sales of semifinished goods between producers were exempted. This sales tax was modified in 1948 by the introduction of a fractional payment system under which manufacturers paid sales tax on purchases of producer goods but were allowed to deduct from their gross sales the value of materials physically incorporated into the final product before computation of the tax. For a more detailed discussion of the fractional payment system, see Maurice Lauré, La Taxe sur la Valeur Ajoutée (Paris: Recueil Sirey, 1952).

Table 1. Relative Importance of Major Tax Revenues in Francophone Africa, 1952

(In per cent)

	Taxes on Net Income and Profits 1/ (1)	Taxes on Goods and Services 2/ (2)	Taxes and Duties on Imports (3)	Taxes and Duties on Exports (4)	Other 3/ (5)	Total (6)
French West Africa (combined general and territorial budgets)	29.5	19.7	36.1	13.0	1.7	100.0
General budget	--	24.7	53.4	19.6	2.3	100.0
Territorial budgets of:						
Dahomey	93.0	5.0	1.9	--	0.1	100.0
French Guinea	90.9	5.8	2.6	--	0.7	100.0
French Sudan	92.3	4.2	3.5	--	--	100.0
Ivory Coast	75.0	20.3	3.8	--	0.9	100.0
Mauritania	90.3	1.1	8.6	--	--	100.0
Niger	99.1	--	0.6	--	0.3	100.0
Senegal	83.3	16.1	--	--	0.6	100.0
Upper Volta	98.1	--	1.8	--	0.1	100.0
French Equatorial Africa (combined general and territorial budgets)	29.8	1.5	47.8	18.3	2.6	100.0
General budget	0.7	--	68.8	26.7	3.8	100.0
Territorial budgets of:						
Chad	94.1	2.9	2.2	--	0.5	100.0
Gabon	94.3	3.3	2.6	--	--	100.0
Middle Congo	89.4	8.8	1.6	--	0.2	100.0
Ubangui	96.8	3.0	2.7	--	0.2	100.0
Cameroon	28.3	--	38.7	28.0	5.0	100.0
Madagascar	38.6	11.0	39.8	7.7	2.9	100.0
Togo	16.6	14.4	55.1	12.1	1.8	100.0

Sources: Data taken from Ministere de la France d'Outre-Mer, "Les Budgets des Territoires d'Outre-Mer," Documents et Statistiques, No. 6 (May 1952), pp. 37-46; and Pierre Sanner, "Budgets et Fiscalite des Territoires d'Outre-Mer," L'Economie de l'Union Francaise d'Outre-Mer, (Paris, 1952), pp. 302-303; reprinted from Revue d'Economie Politique, 1952.

1/ Also includes revenue from poll taxes, livestock taxes, business licenses, and property taxes.
2/ Excludes revenues from sales taxes on imports and exports which are included in columns 3 and 4.
3/ Includes registration fees, stamp taxes, and other miscellaneous taxes.

The main additional reforms since independence were: (1) the introduction of value-added taxes in the Ivory Coast, the Malagasy Republic, and Senegal; (2) the introduction of production taxes in the member countries of the Union Douanière et Economique de l'Afrique Centrale (hereafter referred to as UDEAC);1/ and (3) the introduction of additional production taxes in some of the UDEAC countries.

The value-added tax was first introduced in the Ivory Coast in 1960, just five years after its adoption in France.2/ Similar reforms were subsequently enacted in Senegal (1966) and the Malagasy Republic (1969). Adoption of the value-added tax was considered in Mali in 1968, but it was rejected on the grounds that the tax credit on purchases of capital goods would result in undesired revenue losses.

The treaty establishing UDEAC in 1964 stated that the member countries would seek to harmonize their sales taxes on domestic transactions to promote regional industrialization. In 1968, a proposed draft of a production tax was approved by the member countries. A sales tax similar to the proposed levy was adopted by Chad in 1969, the same year that this country withdrew from UDEAC. A similar production tax was later introduced in the Congo, the Central African Republic, and Gabon. The new United Republic of Cameroon also adopted the production tax in 1973, to replace both the manufacturers' sales tax in East Cameroon and the transactions tax of the previous federal government. This UDEAC production tax should not be confused with the taxe unique levied in the same countries: the latter is an excise levied in lieu of sales taxes on manufacturers producing for a market that includes more than one country in the Union.

Finally, additional production taxes have been recently introduced in the Congo and Gabon. In 1967, the Congolese authorities adopted a multiple-stage transactions tax (taxe interieure sur les transactions) at a rate of 1 per cent on all transactions, including sales of agricultural produce. When the Congo introduced the UDEAC production tax, this additional levy remained separate, but it was drastically changed in form

---

1/ UDEAC was originally composed of the five countries of French Equatorial Africa, but in April 1968 the Central African Republic and Chad withdrew to establish (with Zaïre) the Union of Central African States. In December 1968, however, before its withdrawal had become effective, the Central African Republic rejoined the UDEAC, while Chad's withdrawal became effective only on January 1, 1969.

2/ The French sales tax was again modified in 1955 to allow producers a credit for tax paid on their purchases. This credit replaced the deduction (from gross sales) of materials physically incorporated in the final product. With this modification the sales tax in France became known as the value-added tax and has served as the basic model for the value-added taxes of the European Economic Community and francophone Africa. For a detailed discussion of the value-added tax in France see Clara K. Sullivan, The Tax on Value Added (New York: Columbia University Press, 1965).

from a multiple-stage tax to one on the initial sale of goods and services, excluding the agricultural sector. The rate has since been increased to 5 per cent on goods and 3 per cent on services. Finally, Gabon introduced a new production tax (taxe sur les transactions) in 1973. Sales subject to the UDEAC production tax are exempted from this tax. Its rate is 1 per cent, and the entire proceeds are earmarked for servicing the public debt.

3. Present sales tax systems

Apart from the taxe unique in the UDEAC countries, there are thus basically three types of general sales taxes currently levied in francophone Africa: (1) the production tax, (2) the manufacturers' tax, and (3) the value-added tax (see Table 2). For the most part, all these taxes are levied on manufacturers, usually with separate taxes on imports and services, and in some cases exports, as discussed in Section III.1/ The three types of tax differ, however, both in the precise tax base and in the manner in which tax liability is computed.

a. Production taxes

Production taxes are currently levied in Cameroon, Central African Republic, Chad, the Congo, and Gabon. The legislation governing the definition of taxable transactions and the tax base is largely harmonized for the four UDEAC countries and differs only slightly in Chad. In addition to this UDEAC production tax, the Congo and Gabon levy a rather similar but separate tax, as mentioned above. For the most part, the production taxes in francophone Africa are limited to the manufacturing stage and imports both by exemptions and by the structure of the economy. As shown in the following section, however, there may still be some element of multiple-stage taxation in these taxes.

b. Manufacturers' taxes

Manufacturers' taxes are levied in Dahomey, Guinea, Mali, Mauritania, Niger, Togo, and Upper Volta. As noted above, the manufacturers' tax in each country for the most part reproduces the French sales tax as modified in 1948 to include a fractional payment system. The tax base therefore differs from that of the production tax in that firms are allowed to deduct from gross sales the purchases of inputs that are physically incorporated into the manufactured product (physical ingredient rule).

1/ In this paper the sales tax system is considered to include the separate levies on services, imports, and exports, but is referred to by the name of the tax on domestic transfers of goods alone (see Table 2).

Table 2. Classification of Sales Tax Systems

Country and Type of Tax	Date Introduced	Legal Nomenclature
<u>Production taxes</u>		
Cameroon	1973	Impôt sur le chiffre d'affaires interieur (UDEAC Production tax)
Central African Republic	1971	
Gabon	1971	
The Congo	1971	
The Congo	1967	Taxe interieure sur les transactions
Gabon	1973	Taxe sur les transactions
Chad	1969	Impôt sur le chiffre d'affaires interieur
<u>Manufacturers' taxes</u>		
Dahomey	1962	Impôt sur le chiffre d'affaires interieur
Guinea	1958	Taxe sur le chiffre d'affaires
Mali	1962	Impôt sur les affaires et services
Mauritania	1961	Impôt sur le chiffre d'affaires
Niger	1958	Taxe local sur le chiffre d'affaires
Togo	n.a.	Taxe interieure sur le chiffre d'affaires
Upper Volta	n.a.	Taxe sur le chiffre d'affaires
<u>Value-added taxes</u>		
Ivory Coast	1960	Taxe sur le valeur ajoutée
Malagasy Republic	1969	Taxe unique sur les transactions
Senegal	1966	Taxe sur le chiffre d'affaires

This deduction is generally defined to include two different categories of inputs: (a) raw materials and semifinished goods that are partially or wholly incorporated into the manufactured product, and (b) materials and products, other than machinery or equipment, which do not become physically incorporated into the manufactured product but which lose their specific characteristics or are consumed in the course of the production process. (Examples of such inputs are abrasives, oils, sulphuric acid, oxygen, and other industrial gases.) Application of the physical ingredient rule is not, however, uniform among countries. The statutes of Dahomey and Togo, for example, specify that these inputs may be deducted from gross receipts only if they have in fact borne the sales tax, while Guinea, Mauritania, and Upper Volta allow the deduction without this stipulation. Mali's law, on the other hand, specifies as allowable deductions only the inputs mentioned in (a) above that have borne the tax and does not mention those included in (b) above. Finally, Niger permits the deduction of raw materials only if they are of local origin. The general practice in all countries, however, is that total deductions for a given period cannot exceed total taxable transactions, thus avoiding the need for refunds.

c. <u>Value-added taxes</u>

Value-added taxes patterned after that introduced in France in 1955 are presently levied in Ivory Coast, Malagasy Republic, and Senegal. In contrast to the method of subtracting from gross sales the purchases of various inputs under the manufacturers' tax,liability for value-added tax is determined by subtracting the tax paid on inputs from the tax applied to gross sales (tax credit method). In addition to this difference in collection technique, the base of the value-added tax is narrower than that of the manufacturers' tax in that credits are allowed not only for tax paid on inputs physically incorporated into the final product but also for tax paid on machinery, equipment, industrial buildings (factories and storage facilities), certain overhead materials (paper and air conditioners), and various business services.

Generally speaking, the value-added taxes on domestic transactions in francophone Africa are collected only at the manufacturing stage, rather than at all stages of the production and distribution process as is now the case in France and other EEC countries. In the Ivory Coast, for instance, only producers are required to register as taxpayers. Wholesalers and retailers may elect to come under the tax but normally will take that option only if they sell to producers or in order to claim tax credits on exports. The Senegalese law exempts sales made by wholesalers and retailers as long as the tax is paid by the producers. Only the statute of the Malagasy Republic appears to include sales of merchants, although it is not known whether wholesalers and retailers are actually registered as taxpayers.

4. Summary

The sales tax systems of francophone Africa generally consist of a tax on locally produced goods with separate levies on imports and on most services. The threee main variants of the general sales tax may be distinguished by their taxable base, as seen in the following algebraic example. The value added of a taxpaying firm may be defined as gross sales minus purchases of nonlabor inputs, or VA = O-I, where VA = value added, O = gross sales and I = purchases of nonlabor inputs. Inputs may be further divided into Ip, or inputs that are physically incorporated into the final product or lose their specific characteristics in the production process; If, or machinery, equipment, industrial buildings, and certain services; and Io, or other inputs that are not allowed as a deduction under any system (e.g., business vehicles). This expression can therefore be rewritten as VA = O-Ip-If-Io, and the three sales tax forms found in francophone Africa can be expressed as follows:

(1) production tax = tO = t(VA + Ip + If + Io)
(2) manufacturers' tax = t(O-Ip) = t(VA + If + Io)
(3) value-added tax = t(O-Ip-If) = t(VA + Io)

where t = sales tax rate.

In actual practice, of course, these bases will differ somewhat from country to country depending upon particular restrictions on deductions and credits.

III. Structural Characteristics of the Three Sales Tax Variants

1. Coverage and exemptions

The sales tax statutes of all 15 countries are fairly uniform in their definition of taxable transactions and in the parties required to register as taxpayers. Proprietorships, partnerships, and corporations engaging in commercial and industrial activities are subject to tax regardless of the profitability of their operations. In countries such as Guinea and Mali, where public enterprises play an important role in production and distribution, the sales tax thus applies to their sales just as it does to firms in the private sector.

Industrial activity is commonly defined to include manufacturing and processing; some statutes include the activities of artisans. Commercial activities include the importation and to some extent the distribution of consumer and producer goods as well as the rendering of services. The statutes of the UDEAC production tax define taxable transactions more broadly to include the activities of the liberal professions such as lawyers and accountants (but exclude doctors and midwives).

Exemptions are of varying importance in the sales tax systems of francophone Africa. In some cases they consist of a simple list of tax-free transactions, some of which are taxed in other ways. In the UDEAC countries, on the other hand, exemption of some raw materials reduces the extent of cumulative taxation. Some exemptions are common to all countries (e.g., sales of printed matter and exports), while others (e.g., shipbuilding and related activities) are found in only a few countries (those with port facilities).

Exemptions can usefully be classified in many ways, for example, according to the nature of the product, the producer, or the consumer. In this study, however, the classification used is based on the intended purpose or the role played by an exemption. The exemptions for each country are therefore classified in Table 3 as fiscal, economic, social, or cultural in nature.

Fiscal exemptions are those generally intended to facilitate the administration of the overall tax system. One type of fiscal exemption is applied to transactions that are difficult to assess, although in some instances such transactions are taxed in different ways. This is true in all 15 countries of insurance companies, which are subject to a special tax and exempt from sales taxation. A similar exemption is granted to the sales of the state monopolies in the Malagasy Republic and Upper Volta, presumably on the grounds that tobacco, matches, and stamps are already effectively taxed through the monopoly price. This same general rationale accounts for the exemption in the UDEAC countries of sales of firms that are subject to the taxe unique (see below). Another type of fiscal exemption is related to the sales of agricultural inputs. These inputs are exempt under the value-added taxes of Ivory Coast, Malagasy Republic, and Senegal, as well as under the manufacturers' taxes of several West African countries, at least partly on the grounds that farmers are unable to receive a deduction or credit for the tax paid on inputs since they are not registered taxpayers.

Economic exemptions are those designed to encourage various forms of economic activity. Actually, very few economic exemptions are specified in the statutes. One common to all countries, however, is for exports. Despite the fact that all three sales tax variants exempt exports, there may still be some tax element in the export price of manufactured items which differs with the form of the tax, as demonstrated below. Narrower exemptions for the construction and maintenance of ships are granted in Guinea, Ivory Coast, Mauritania, and Senegal. These exemptions, which were inherited from the French statutes, are intended to stimulate shipping activities and the expansion of port facilities. The importance of these exemptions differs markedly among the four countries, however. The only important port in Mauritania, for example, is located in Nouadhibou and caters primarily to fish processing enterprises and the servicing of their fleets. In Senegal, on the other hand, the port of Dakar has long been a major transit and refueling stop for ocean-going vessels of all kinds.

Table 3. Summary of Basic Exemptions

Exemptions	Production Taxes			Manufacturers' Taxes							Value-Added Taxes		
	UDEAC	The Congo	Chad	Dahomey	Guinea	Mali	Mauritania	Niger	Togo	Upper Volta	Ivory Coast	Malagasy Republic	Senegal
Fiscal													
Insurance Contracts	X	X	X	X	X	X	X	X	X	X	X	X	X
Sales subject to UDEAC taxe unique	X		X										
Sales of State Monopoly (tobacco, matches, stamps)										X		X	
Agricultural inputs (fertilizer, seed, machinery)						X		X	X	X	X	X	X
Discounting operations of financial intermediaries (public and private)	X		X	X			X			X	X		X
Transportation (road, rail, and river)				X		X	X	X	X		X	X	X
Unprocessed primary products of domestic origin	X	X	X	X		X		X			X	X	
Economic													
Construction, maintenance, and repair of boats and ships					X		X				X		X
Exports	X		X	X	X	X	X	X	X	X	X	X	X
Palm oil												X	
Cultural													
Activities of non-profit organizations promoting sports, educational, and cultural events		X			X			X		X	X	X	
Printed matter (books, magazines, newspapers)	X	X		X	X	X	X			X	X 1/	X	X
Sales of art (paintings, sculptures, etc.)	X								X				
Social													
Basic foodstuffs (imported and locally processed)				X	X	X	X	X	X	X	X	X 2/	
Medical services	X												

Sources: Sales tax statutes.

1/ Includes phonograph records.
2/ Includes soaps, firewood, charcoal, school supplies.

Most economic exemptions are granted in conjunction with a country's investment code rather than being included in the sales tax statutes. Typically, new enterprises are allowed a five-year holiday from payment of the corporate profits tax, business license fees, and certain import taxes, including the sales tax on imported items. These exemptions, however, rarely include the sales tax on domestic transactions.

Social exemptions are those intended to reduce the regressivity of the sales tax. Consequently, purchases of some necessities of the lowest income groups are freed from tax, such as basic foodstuffs whether imported or processed locally. This exemption is widespread in most countries except the UDEAC group. In the Malagasy Republic, the exemption is broader, including a number of basic household items such as soap, firewood, charcoal, and school supplies. Unprocessed farm sales of foodstuffs are also exempt in most countries, although a principal reason for this exemption is to facilitate the administration of the tax. Another example is the exemption of some medical services from the production tax in the UDEAC countries. Under the manufacturers' taxes and value-added taxes, the same result is achieved because medical services are simply not designated as taxable transactions.

Finally, cultural exemptions are those presumably intended to encourage the development of cultural activities. In six countries (the Congo, Guinea, Niger, Upper Volta, Ivory Coast, the Malagasy Republic), admissions to sport, educational, and cultural events sponsored by nonprofit institutions are exempt. Most countries exempt sales of books, magazines, and newspapers, presumably to encourage their consumption. The UDEAC countries and Togo exempt sales of works of art.

a. Agriculture

Unprocessed primary commodities derived from farming, fishing, forestry, and livestock raising are outside the scope of sales taxation in francophone Africa. They are specifically exempted in the UDEAC production tax statutes and are simply excluded from designated taxable transactions in the other countries. When the additional production tax was introduced in the Congo in 1967, farm sales were included in the law as taxable transactions, but they were exempted a year later.

In principle, there is no reason why sales of agricultural commodities should be free of tax. As noted above, the main reason for this exemption in practice is administrative expediency. Because such sales are mostly carried out by numerous small-scale operators it is very difficult to assess and collect taxes on these transactions. A secondary reason for the exemption may be to alleviate regressivity, since unprocessed food constitutes a high proportion of the consumption of low-income groups.

b. Manufacturing and processing

The statutes of all three sales tax variants specify that manufacturers who produce directly or on consignment are subject to tax. Manufacturers are further defined to include entrepreneurs who fabricate, fashion, transform, or process a product with or without the use of additional materials. In addition to a firm's sales of manufactured goods the tax also applies to self-deliveries, which are defined as goods that the producer manufactures for use in his operations, such as machinery, equipment, buildings, tools, dies, and fixtures. Self-deliveries do not include semifinished goods that the entrepreneur produces and physically incorporates into the final product. A transaction is taxable when the manufactured goods are delivered.

The coverage of manufactured goods in the UDEAC countries cannot be adequately described in the context of the UDEAC production tax alone, however, because many producers who export goods to one or more member countries are exempt from this tax and subject instead to the taxe unique. This tax, which may be considered an excise, was introduced in 1960 in the Customs and Economic Union (Union Douanière Equatoriale--UDE), the predecessor of UDEAC, on an optional basis for firms exporting to other member countries. In 1964, when the treaty establishing UDEAC was signed, all firms exporting to other member countries were compulsorily subjected to the tax. The purpose of this tax is to stimulate manufacturing in the region by permitting free circulation of goods within the Union. Firms subject to the taxe unique are exempted from import duties and taxes on producer goods (including the sales tax on imports), from internal sales taxes on producer goods purchased locally, and from internal sales taxes on their manufactured products. Export taxes on these items when destined for non-UDEAC countries are left to the discretion of each member country.

The rates of taxe unique are set for each product of a firm by a special UDEAC committee. As a rule, they represent a lower burden than the combined taxes to which the product would otherwise have been subject, thereby securing an advantage for regional industry and encouraging import substitution. That is, the system increases the effective protection afforded to firms because the exemption from import tax on intermediate goods and domestic sales tax on the finished product is only partially offset by the taxe unique.

The tax is assessed on manufacturers when the products leave the plant, whether to be distributed for consumption or to be added to the firm's stocks. It is collected by the unified UDEAC customs administration, and the proceeds are distributed among the member countries on the basis of their consumption. Manufacturers and wholesalers trading between member countries are required to record the destination of their consignments on special forms. These forms are used as the basis for allocating the yield of the tax to the different countries.

As of January 1, 1970 there were 95 firms throughout the Union (Cameroon, 51; Central African Republic, 17; the Congo, 21; and Gabon, 6) subject to the taxe unique. The industrial output of these firms, which totaled CFAF 30.2 billion in 1970,[1/] represents more than 50 per cent of total manufacturing output in Cameroon and the Congo and about 35 per cent in Gabon. Almost 65 per cent of the total output subject to the taxe unique was produced in Cameroon.

c. Services

A wide range of services is subject to sales taxation in all francophone African countries, although the coverage of services is integrated in varying degrees into the basic tax statutes applying to sales of goods. The UDEAC production taxes, for example, include services as a taxable transaction, whereas some countries with manufacturers' and value-added taxes have a separate tax on services (taxe sur les prestations des services). In the Ivory Coast and Senegal, however, service enterprises may opt to be subject to the value-added tax and hence receive credit on tax paid on their inputs, while producers are allowed a credit on certain services that have borne the tax.

Services are generally defined to be transactions involving the rendering of manual labor or technical know-how without a transfer of title. The definition does not exclude the possibility of transferring goods with the service as long as the goods do not represent the most important element of the transaction. In practice, restaurants are considered to render services rather than transfer goods. Most services including rentals, certain financial services, transportation, lodging, restaurants, entertainment, advertising, management services, patents, and land subdivisions are taxed unless specifically exempted. The UDEAC production tax also includes the activities of the liberal professions as taxable services with, as noted earlier, the exception of doctors and midwives. Services rendered by professionals are, however, excluded under the manufacturers' and value-added taxes, although related activities, such as operating a nursing home by a physician, are taxable if they are of a commercial nature.

Some services are exempted under all three sales tax variants, such as certain transactions of banks and other financial intermediaries. Most financial services appear, however, to be subject to tax, though they often present serious administrative problems owing to the vast number of such transactions and the difficulty of ascertaining the appropriate tax base. A typical solution in francophone Africa is to

1/ Secrêtariat Gênêral de l'UDEAC, Bulletin des Statistiques Gênêrales de l'UDEAC, 34 (April 1971): 37. Although most of this output was consumed in its country of origin, all of it was subject to the taxe unique rather than the sales tax.

exempt the commission that banks receive from discounting operations and to subject financial institutions to special provisions under the income tax. A similar example is the treatment of insurance companies, as mentioned earlier.

Service transactions are taxable when payment is received for services rendered, and the tax rate generally applies to the gross sales of the firm with no deductions or credits allowed. One exception to this is in the Ivory Coast and Senegal, where as noted above, firms supplying taxable services may benefit from credits on tax paid on the purchase of their inputs.

d. Small enterprises

Sales of small enterprises are typically difficult to tax since many of them do not maintain adequate accounting records for the preparation of periodic tax declarations. One possible solution to this problem is to exempt from tax sales by firms with estimated gross sales below a specified amount. In francophone Africa, however, small enterprises with estimated gross sales below specified levels (see Table 4) are instead assessed by a presumptive technique known as the forfait assessment.

Enterprises subject to forfait assessment are required to maintain a simple daily record of transactions. From this account they prepare an annual declaration estimating their gross receipts, total purchases, total wage payments, and value of stocks. This information is then used by the tax department to estimate tax liability. An assessment for this amount is issued to the taxpayer, who has 20 days to accept or reject the assessment. Failure to respond within the allotted time period is considered by the tax authorities as tacit acceptance. In the event that the taxpayer rejects the assessment, both parties negotiate to determine a mutually acceptable assessment. The position of the tax authorities is generally determined by their experience with other enterprises engaged in similar types of economic activity. For disputed cases agreement is almost always reached through negotiation; if not, the case is turned over to an ad hoc commission composed of the Director of the Internal Tax Department (Chairman), other officials of the Ministry of Finance, and businessmen from the private sector. The decision of this commission is considered final and can only be contested in the courts.

Once the assessment is determined, the standard sales tax rates are applied, and the taxpayer agrees to pay the tax in monthly or quarterly installments. The forfait assessment is usually valid for two years. Prior to the termination of this period the tax authorities may request from the taxpayer current estimates of gross sales and other indicators of economic activity. Sometimes the authorities visit the premises of the enterprise to ascertain major changes in the scale of operations. On the basis of this new information the assessment may be adjusted for the following two-year period.

Table 4. Gross Receipts Ceilings for Firms Subjected to Forfait Assessment

(In millions of CFA francs)1/

	Category A2/	Category B3/
Production taxes		
Cameroon	5	2
Central African Republic	5	2
Gabon	20	5
The Congo	30	7.5
Chad	60	15
Manufacturers' taxes		
Dahomey	20	5
Guinea	n.a.	n.a.
Mali	5	2.5
Mauritania	15	5
Niger	15	5
Togo	30	10
Upper Volta	15	5
Value-added taxes		
Ivory Coast	30	15
Malagasy Republic	5	3
Senegal	20	7

Source: Sales tax statutes and data provided by country authorities.

1/ Except for Mali which is expressed in Malian francs (1 FM = 0.5 CFAF).
2/ Mainly enterprises engaged in sales of merchandise and provision of restaurant and hotel services.
3/ Enterprises engaged in all other activities than those specified in Category A (mainly services).

Although the _forfait_ method is used throughout francophone Africa, data regarding its relative importance are available for only Mali and Senegal. In Mali approximately 755 enterprises, or 72 per cent of the total, are assessed under this method, whereas in Senegal the number is only 352 or 26 per cent. In Senegal, most _forfait_ taxpayers provide retail services, with only about 35 per cent engaged in manufacturing and construction. Almost half of the _forfait_ taxpayers are tailors, barbers and hairdressers, and operators of hotels, bars, and restaurants.

e. Construction

Construction contracts are taxed under all three sales tax variants, albeit in different ways. Under the UDEAC production tax the rate is applied to the value of the contract. This approach is somewhat unsatisfactory, however, as a building includes a substantial amount of materials and fixtures that were taxed previously. The UDEAC production tax attempts to offset this cumulative effect by taxing construction contracts at rates lower than those on manufactured goods. In some countries that levy the manufacturers' tax there is no allowable deduction for materials and fixtures physically incorporated in a building. Instead, a slightly lower rate is applied to the sale of buildings (although the differential is not as large as in the UDEAC countries); in addition, the taxable base (contract value) is reduced by a substantial percentage--40 per cent in Mali, Niger, and Upper Volta, and 30 per cent in Guinea. Construction is treated differently under the value-added taxes of the Ivory Coast and the Malagasy Republic, where such transactions are integrated into the credit system. For instance, the tax paid on the purchase of industrial buildings is creditable in the Ivory Coast, and a similar credit is given for agricultural, mining, and tourist installations as well as industrial buildings in the Malagasy Republic. The value-added tax in Senegal, however, does not include construction in the credit mechanism and, instead, applies the tax to the contract value minus the costs for movable fixtures (such as hot water heaters).

f. Imports

Sales taxes are collected on imports in most francophone African countries. In fact, as shown in section IV below, most sales tax revenues are derived from imports rather than domestic transactions. However, the exact sales tax coverage of imports is not clear in some countries because the statutes relating to imports are a part of the customs legislation and are therefore not integrated with the domestic sales tax statutes.

One result is that some rates on domestic transactions bear no obvious relationship to those on similar imports. In the UDEAC countries for example, a common sales tax on imports (_taxe sur le chiffre d'affaires à l'importation_) is applied to almost all merchandise as it enters the

Union. The rate of this tax is 10 per cent of the c.i.f. value and cannot be unilaterally altered without approval of all member countries. Since the rates of the UDEAC production tax on domestic transactions have not yet been fully harmonized, however, they are somewhat lower than the rates on imports in Cameroon, the Congo, and Gabon, and slightly higher in the Central African Republic.

The relationship between the manufacturers' taxes of some West African countries and the corresponding sales tax on imports is even more confusing. Most of these countries retained the sales tax on imports known as the taxe forfaitaire représentative de la taxe sur les transactions à l'importation (TFRTT à l'importation) from the preindependence period along with several other import taxes and duties. In recent years Guinea (1960), Dahomey (1967), and Mali (1969) have consolidated a number of import taxes including the TFRTT, fiscal duties, statistical taxes, research taxes, and various special surcharges into a single fiscal duty. This consolidation was accomplished by summing arithmetically the existing rates of the individual taxes. While the consolidation certainly eased the administrative burdens of collecting import taxes, the result is that there is no clear relationship between the rates on domestic transactions and those on imports.

When the value-added tax was introduced in the Ivory Coast to replace the manufacturers' tax, the TFRTT was similarly consolidated with other import taxes into a single levy known as le droit spécial d'entrée and imports were covered by the value-added tax. In Senegal, however, the TFRTT is still collected separately, though simultaneously with the more recently adopted sales tax on imports.

Finally, Mauritania and Upper Volta have introduced since independence additional sales taxes on imports known as the taxe sur le chiffre d'affaires and the taxe compensatrice de la taxe sur le chiffre d'affaires, respectively. In both cases this tax and the existing sales tax on imports are collected simultaneously, thus unnecessarily complicating the overall tax structure.

Imports are taxable when they are claimed at customs. The rates are generally applied to the c.i.f. value plus the amount of import duties and taxes including the sales tax on imports. However, some landlocked countries, such as Chad, do not value imported merchandise at the full c.i.f. value but on the c.i.f. value at the African port of discharge. This practice may result in a significant loss of revenue if the freight charges for transporting such merchandise to the borders of Chad are a large element of the consumer price. Presumably it is done as a matter of administrative convenience.

g. Exports

Exports are typically defined to include not only goods and services produced locally and transferred abroad, but also transactions that are specifically mentioned in the statutes as being similar to exports. In the Ivory Coast and Senegal, for instance, the construction and repair of merchant, fishing, and naval ships are considered exports, as are sales of fishing nets and associated equipment. In addition, the transportation of merchandise and persons to bordering countries is treated as an export. Senegal regards as exports the sales or repairs of airplanes for airlines that conduct 80 per cent of their services outside of the country.

Exports are universally exempted in the sales tax statutes, both because the sales tax is intended to fall on domestic consumption only and because exported manufactured goods would, with given exchange rates, otherwise be placed at a disadvantage in world markets. As in the case of imports, however, the treatment of exports in francophone Africa is confused by the continued application to exports of sales taxes that existed prior to independence, as well as by more recent efforts to consolidate various export taxes and duties. The UDEAC countries levy a common sales tax on exports known as the taxe sur le chiffre d'affaires, while Mauritania, Niger, Senegal, and Togo apply a sales tax on exports known as the taxe forfaitaire représentative de la taxe sur les transactions à l'exportation (TFRTT à l'exportation). The other West African countries have consolidated the TFRTT with other taxes to form a more simplified export tax system. In all cases these taxes are levied on a wide range of exports including manufactured goods.

In addition, the three sales tax variants differ substantially in the extent to which they remove the sales tax on domestic and imported goods from the final export price. Producers subject to the UDEAC production tax and the manufacturers' tax pay sales tax on imported raw materials and investment goods. Since there is no mechanism in these taxes that allows the producer to recoup the tax paid on the goods used in the manufacture of his exports, his costs and possibly prices are therefore affected by the tax. The value-added tax mechanism, which allows the exporter a credit for tax paid on producer goods, is clearly the most effective of the three sales tax variants for removing the tax element in the export price. In the Malagasy Republic, the exporter is simply given a credit against future tax liability. In Senegal, on the other hand, the rebate is given as a cash refund at the close of the year, whereas in the Ivory Coast cash refunds are made throughout the year with no limitations.

2. Rate structure

As indicated at various points in the previous discussion, the sales tax rate structure in most francophone African countries is rather complex (see

Table 5).[1/] Except in UDEAC and Togo most imports are subject to a standard rate, with "luxury" items such as alcoholic beverages, tobacco products, and photographic equipment being taxed at an increased rate and "necessities" such as foodstuffs, medicines, and certain investment goods being subject to reduced rates. The margins between these rates are often substantial: for example, in Mali the increased rate is 40 per cent and the reduced rate 10 per cent. The rate on imports in Togo, on the other hand, is not differentiated, and all goods are subject to a rate of 18 per cent. The common rate in UDEAC is also set at a standard 10 per cent. Chad has maintained a similar system since leaving UDEAC but raised the rate to 15 per cent in 1969.

A straight comparison of the levels of sales tax rates on imports in different countries is meaningless because of the different consolidated rates discussed above and the duplication of taxes on identical bases in the Ivory Coast, Mauritania, and Senegal. A meaningful comparison would require a detailed review of all taxes on imports in each country in order to determine the rates applied to similar commodity classifications.

The number of rates is generally fewer and their level lower for domestic sales of goods than for imports. Six countries apply a single standard rate to such sales, while nine countries tax necessities at a lower reduced rate. Rates are generally lower under the UDEAC production tax than under the manufacturers' and value-added taxes. Since this differential in part reflects the fact that the base of the production tax (gross sales) is larger than the bases for the other two types of sales tax, it does not necessarily imply relatively lower taxation. The highest rates on domestic transactions prevail in Mali and Niger, where the standard rates are 20 per cent and 18 per cent, respectively. The rates of the production tax in Chad and the combined production taxes in the Congo approximate those of the value-added taxes in the Ivory Coast and the Malagasy Republic. The rate differentials among countries with approximately the same base are more interesting. The standard value-added tax rate in Senegal, for example, is 9 per cent while that of the Ivory Coast is 15 per cent. Under the manufacturers' tax, the standard rate varies from 7 per cent in Guinea to 20 per cent in Mali. The differences in production tax rates are smallest: the ultimate objective in this case is to fully harmonize the rates, as has already been done with coverage and definition of taxable transactions.

1/ The rates presented in Table 5 are nominal rates, that is, they are levied on the price inclusive of tax. The nominal rates can be easily converted to effective rates (on price exclusive of tax) by the following formula:

$$t_e = \frac{t_n}{1 - t_n}$$

where t_e is the effective sales tax rate and t_n is the nominal rate.

Table 5. Nominal Sales Tax Rates

(In per cent)

	Production Taxes						Manufacturers' Taxes							Value-Added Taxes		
	UDEAC															
	Cameroon	Central African Republic	The Congo	Gabon	The Congo	Chad	Dahomey	Guinea	Mali	Mauritania	Niger	Togo	Upper Volta	Ivory Coast	Malagasy Republic	Senegal
Imports																
Standard	10.0	10.0	10.0	10.0	--1/	15.0	10.0 2/	--2/	20.0	12.0 20.0 3/	25.0	18.0	6.0 25.0 3/	15.0 10.0 3/	12.0	11.90 16.42 3/
Reduced	--	--	--	--	--	--	5.0	--	10.0	10.0 2.0 3/	10.0	--	3.0 7.0 3/	7.5	6.0	16.42 3/
Increased	--	--	--	--	--	--	20.0	--	40.0	25.0 30.0 3/	--	--	--	25.0	--	25.00 21.30 3/
Domestic transactions																
Standard	8.0	10.5	9.0	6.5	5.0	12.5 10.0 4/	11.0	7.0	20.0	9.0	18.0	10.0	13.0	15.0	12.0	9.0
Reduced	4.0 5/	6.0 6/	7.0	--	--	5.0 7/ 3.5 8/ 7.5	--	--	--	4.0	9.0	--	--	7.5	6.0	4.0
Construction and public works	--	6.0	7.0	3.3	--	9.9	11.0	7.0	13.0	8.0	13.0	8.0	13.0	15.0	6.0	8.5
Services 9/	12.0	14.0	12.0	12.0	3.0	12.5	11.0	5.0	15.0	12.0	13.0	8.0	13.0	15.0	6.0	8.5
Transportation	4.0	2.3	7.0			4.4			6.0							
Rentals		5.0	7.0			9.9										
Hotels/bar restaurants			7.0			12.5		10.0			6.5			7.5		
Entertainment 10/	10.0		7.0			9.3		10.0	20.0		10.0					
Exports	--	2.0	2.0	2.0	--	6.0 2.0 12/	--11/	--11/	--11/	5.4	6.0	6.5	--11/	--11/	--	5.4

Source: Sales tax statutes.
1/ The rate on imports is included under the UDEAC production tax only.
2/ Import sales tax has been consolidated with other import taxes into a single import fiscal duty. Prior to consolidation the rates were 10.0, 5.0, and 20.0 per cent in Dahomey for the standard, reduced and increased rates respectively.
3/ Refers to the sales tax on imports (TFRTT) introduced prior to independence and still levied with other sales taxes on imports. In the Ivory Coast this tax was renamed the Special Import Duty.
4/ Sales of certain food products (milk products and construction materials).
5/ Sales of handicraft items.
6/ Bottled beverages and handicraft items.
7/ Sales of locally processed edible oils.
8/ Sales of locally processed rice.
9/ All services taxed at this rate unless otherwise indicated.
10/ Generally refers to cinema admissions.
11/ Consolidated with other export taxes into a single export fiscal duty.
12/ Cotton.

The taxable base for services is the same in all countries (gross sales) but again the normal rates vary substantially ranging from 5 per cent in Guinea to 15 per cent in Mali and the Ivory Coast. In some countries the rates are differentiated according to the nature of the service, for instance, lower rates are applied to transportation services in the Central African Republic, the Congo, Chad, and Mali. Differentiation is most extensive in Chad where such services as transportation, rentals, hotels, and entertainment are all taxed at different rates.

IV. Trends in Sales Tax Revenue

1. The structure of tax revenue

The revenue structure of the 15 countries considered in this paper is typical of many developing countries.1/ Revenue from taxes on international trade and transactions overwhelmingly dominates other revenue sources, varying from about 41 per cent of total tax receipts in the Central African Republic and Mauritania to almost 75 per cent in Togo (see Table 6). For most of the 15 countries the share is close to 50 per cent. Most revenue from international transactions comes from import taxes and duties, which are dominated by customs and fiscal duties (except in Mauritania, Niger, and Togo). Revenue from sales taxes on imports is also important in most countries, accounting for from 9 per cent of tax receipts in Gabon up to 27 per cent in Senegal. The relatively small share of revenue from this source in member countries of UDEAC is explained by the fact that the common sales tax rate of 10 per cent applied to imports is relatively lower than in other countries (see Table 5) while imported raw materials and intermediate goods of firms subject to the taxe unique are exempt from import taxes.

The share of revenue from export taxes and duties varies from about 1 per cent in Mauritania to 20 per cent in the Ivory Coast. This comparison is somewhat misleading, however, because the taxation of exports varies considerably among countries. While some countries tax the value or volume of output that is actually exported, others, like Guinea, obtain their share in the exploitation of natural resources through taxation of the profits of the exporting firms or, like Mauritania, rely mainly on royalty payments. Because these different systems are classified differently in the revenue statistics of different countries, it is difficult to draw any meaningful conclusions concerning the relative importance of export taxation from the data in Table 6.

1/ See Raja J. Chelliah, "Trends in Taxation in Developing Countries," Staff Papers 18 (July 1971): pp. 254-331.

Table 6. Relative Importance of Major Tax Revenues

(As per cent of total tax revenue)

	Cameroon 1969-1971	Central African Republic 1969-1971	Chad 1961-1967	The Congo 1968-1971	Dahomey 1965-1970	Gabon 1967-1971	Guinea 1960-1970	Ivory Coast 1962-1969	Malagasy Republic 1965-1971	Mali 1969-1971	Mauritania 1969-1971	Niger 1965/66-1968/69	Senegal 1962/63-1970/71	Togo 1965-1970	Upper Volta 1965-1968
Taxes on net income and profits	17.4	17.8	18.0	16.6	21.0	18.3	34.2	13.8	17.2	12.2	21.8	13.3	21.1	18.3	13.3
Payroll taxes	--	--	2.0	3.3	0.1	1.2	2.6	3.2	--	1.0	0.1	0.2	0.7	...	0.1
Property taxes	--	1.3	--	0.1	--	0.8	--	1.5	3.7	0.4	1.3	0.1	2.1	--	--
Taxes on goods and services	...	18.9	15.4	19.9	11.8	12.7	6.4	19.6	22.4	16.6	9.6	18.3	21.9	5.0	11.3
General sales tax	4.7	7.6	5.9	9.3	3.8	7.8	4.8	10.3	8.2	8.2	6.6	10.3	7.2	5.0	5.3
Taxe unique	...	11.3	9.6	7.4	--	4.9	--	--	--	--	--	--	--	--	--
Excise duties	0.4	--	--	3.2	7.4	--	1.6	9.3	10.6	8.4	3.0	8.0	14.6	--	--
Taxes on international trade and transactions	...	40.6	51.6	52.0	63.0	56.7	52.9	59.8	54.8	57.4	40.6	41.1	47.3	74.3	61.0
Import taxes and duties	...	37.3	43.6	46.4	57.7	44.8	49.7	39.7	49.3	48.0	39.4	34.8	41.9	59.3	58.4
Customs and fiscal duties	...	...	27.0	31.4	44.1	25.3	43.5	23.4	33.0	26.1	6.9	14.3	9.0	25.2	24.8
Sales tax	...	...	10.2	12.7	--	8.8	--	16.3	11.4	21.3	18.7	18.9	27.2	25.6	16.1
Excise duties	...	...	--	--	1.4		5.6	--	4.0	--	6.7	0.5	3.1	2.8	5.8
Export taxes and duties	...	3.3	8.0	5.6	5.3	11.9	3.2	20.1	5.5	9.4	1.2	6.3	5.4	15.0	2.6
Sales tax	...	--	1.9	0.5	--	1.8	--	--	--	--	--	0.3	2.4	6.3	--
Other taxes of which:	6.8	21.4	13.0	8.1	4.1	10.3	3.9	2.1	1.9	12.4	26.6	27.0	6.9	2.4	14.3
Poll and personal taxes	2.4	8.0	7.7	--	1.7	0.3	--	--	1.8	3.9	--	17.4	3.1	--	11.2
Registration and stamp duties	2.8	2.3	2.3	1.9	1.1	1.5	3.9	1.5	--	2.8	2.1	2.5	2.6	1.9	2.2
Total tax revenue	100.0	100.00	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Computed from revenue data provided by country authorities.

In many countries taxes on domestic goods and services are about as important as taxes on net income and profits. In Guinea, Mauritania and Togo, however, revenue from domestic transactions accounts for less than 10 per cent of total tax receipts. General sales tax receipts range from less than 4 per cent of total tax revenue in Dahomey to more than 10 per cent in the Ivory Coast and Niger. The UDEAC countries appear to rely more heavily on domestic sales taxation (including the taxe unique) than other countries: domestic sales tax revenues account for from 13 per cent to 20 per cent in the UDEAC countries as compared with 4 per cent to 10 per cent in non-UDEAC countries.1/ On the other hand, most non-UDEAC countries obtain relatively higher revenues from excise duties on domestic manufactures (as high as 15 per cent in Senegal), so that the share of revenue derived from all taxes on domestic production, consumption and transactions ranges from about 10 per cent to 22 per cent in most francophone African countries.

If sales tax revenue from both domestic and international transactions is combined, the total share of sales taxes in tax revenues generally ranges from 20 per cent in the Malagasy Republic to as high as 37 per cent in Senegal and Togo. Dahomey and Guinea (where the share is less than 5 per cent) appear in Table 6 to be exceptions. While it is true that the share of revenue derived from domestic transactions in both these countries is less than in most of the other countries, the major difference arises because sales tax revenue derived from international transactions is not shown separately owing to the consolidation of the sales tax on imports with other levies into a single fiscal duty. As would be expected, the result of this consolidation is that Dahomey and Guinea appear to get a considerably larger share of revenue from customs and fiscal duties than do the other countries.

Apart from these two countries--and to a lesser extent the UDEAC countries where many firms are subject to the taxe unique so that their imports of raw materials and intermediate goods are exempt--most sales tax receipts in the francophone African countries are derived from imports. The share of total sales tax revenues derived from imports ranges from 35 per cent in Chad to as high as 76 per cent in Mali. Even for the apparent exceptions, the dependence of tax revenues on imports probably remains similar to that in the other countries, although the form which this dependence takes varies.

1/ Data limitations make it impossible to allocate the proceeds of the taxe unique between sales taxes on domestic transactions and import taxes, but the fact that most of the production subject to this regime appears to be sold in the country in which it is produced suggests that the classification in Table 6 is reasonable.

2. Revenue growth trends

To evaluate the revenue performance of sales taxes it is useful to compare the growth in their revenue with that of other tax sources. Table 7 depicts the annual compound growth rates for major tax sources in the 15 countries. Over the periods covered in the table--generally the late 1960's--sales tax receipts grew in 12 of the countries, in 6 of them at rates in excess of 10 per cent. There was, however, a modest decline in general sales tax receipts in the Central African Republic, Dahomey, and Mali, although total tax collections grew at rates of between 6 per cent and 12 per cent in these three countries.

Revenue from the sales taxes applied to imports increased in all countries except Upper Volta. The rate of increase was actually highest in the Malagasy Republic which is not shown in Table 7 because the sales tax was extended to cover imports only in 1969 when the value-added tax was introduced. From 1969 to 1971, revenue from this source grew at an annual rate of 14 per cent.

In those countries where a sales tax on exports has been retained from the preindependence era, and in the UDEAC countries where a common sales tax is levied on exports, revenues from this source have generally decreased in recent years. Increases were registered only in Chad and Togo. (In Table 7 these revenues are consolidated with other export taxes and duties.)

In 6 of the 15 countries sales tax revenues from domestic transactions have been growing faster than those from taxes on net income and profits or on international trade and transactions. In nine countries sales tax revenues from domestic transactions grew faster than total tax receipts. In most cases, sales tax receipts derived from imports also grew more slowly than sales taxes on domestic transactions. Although the greatest share of sales tax receipts is still derived from imports in most countries, this share has therefore been falling in recent years.

3. Revenue buoyancy

Although comparisons of growth rates like those in the previous section are useful to illustrate revenue trends over time, they do not necessarily indicate revenue performance in relation to economic activity. A more useful indicator is the growth of revenue in relation to the growth of some measure of national income.

A tax is considered to be buoyant if its revenue increases more than in proportion to an increase in the measure of income. Buoyancy is therefore a global indicator of revenue performance that incorporates not only the automatic change in revenue in response to changes in the base but also changes in revenue in response to any discretionary measures.

Table 7. Compound Growth Rates of Major Tax Revenues[1/]

(In per cent)

	Cameroon 1966-1970	Central African Republic 1966-1971	Chad 1960-1971	The Congo 1968-1971	Dahomey 1965-1970	Gabon 1967-1971	Guinea 1965/66-1969/70	Ivory Coast 1962-1969	Malagasy Republic 1966-1971	Mali 1969-1971	Mauritania 1968-1971	Niger 1965-1971	Senegal 1962/63-1970/71	Togo 1965-1971	Upper Volta 1965-1970
Total tax revenue	14.2	6.1	12.8	8.6	12.2	13.6	4.7	12.9	10.5	11.0	13.5	5.1	2.7	12.9	4.9
Taxes on net income and profits	14.1	8.7	18.0	10.1	24.2	14.0	6.9	15.2	7.1	7.6	17.3	10.7	7.7	23.0	8.4
Payroll taxes	--	--	39.5	13.8	-53.7	7.3	3.7	22.6	--	29.6	46.2	--	--	--	--
Property taxes	--	0.2	--	3.2	-47.0	4.2	--	14.3	5.2	14.9	20.9	23.1	3.0	--	--
Taxes on goods and services	...	2.9	18.4	12.6	5.3	23.3	16.1	15.8	10.3	-6.9	17.6	13.1	6.9	27.1	9.3
General sales taxes	21.7	-2.9	13.9	7.3	-0.5	19.8	1.1	18.2	4.2	-0.2	22.3	17.3	6.0	27.1	11.4
Taxe unique	...	7.6	21.7	14.2	--	30.4	--	--	--	--	--	--	--	--	--
Excise duties	0.4	--	--	35.3	5.3	--	--	13.4	12.4	-13.8	9.2	8.8	7.3	--	--
Taxes on international trade and transactions	...	1.4	14.3	9.7	11.0	9.4	1.9	11.2	12.6	6.8	13.4	2.3	-0.7	10.6	4.7
Import taxes and duties	...	2.1	15.6	10.3	10.2	11.3	0.7	11.1	13.4	9.7	13.4	2.7	1.0	9.6	4.6
Customs duties	...	...	--	1.9	--	5.3	-14.9	4.2	(8.9	-52.0	15.3	-2.6	-7.9	--	(7.9
Fiscal duties	...	...	16.0	13.3	8.5	7.8	--	9.2	(	14.9	18.7	1.9	-6.5	7.7	(
Sales taxes	...	...	12.7	6.0	--	9.1	--	16.2	--[2/]	15.1	14.1	5.1	1.8	11.6	-1.0
Export taxes and duties	...	-5.2	8.8	5.2	22.2	1.9	49.9	11.4	7.1	-7.6	13.1	0.4	-11.2	15.1	6.3
Other taxes	8.8	18.9	2.5	-32.5	14.4	26.2	12.9	11.4	1.1	63.4	9.5	2.7	2.9	2.0	0.6
Poll and personal taxes	-2.4	3.2	5.6	--	--	--	--	--	0.2	--	--	6.2	5.4	--	-2.2
Registration duties	15.3	(17.5	(9.0	-2.6	-6.1	(27.0	(12.9	11.2	--	32.2	19.9	4.3	1.1	9.4	(8.1
Stamp duties	4.0	(	(	10.9	2.3	(	(	14.6	--	23.1	13.8	6.6	0.1	8.3	(

Source: Computed from data provided by the country authorities.

1/ Annual growth rates computed from the following formula: $r = \frac{1}{(t-1)} \log_e \frac{R_t}{R_1}$; where R_t = final value, R_1 = initial value, and t = number of years.

2/ Sales tax was extended to cover imports only in 1969.

Buoyancy in this sense is a useful measure of the extent to which the tax system has in fact mobilized domestic resources for the public sector during the period under consideration.[1]

For the 12 countries where data are available the overall tax system appeared to be buoyant with the exception of Gabon and Niger (see Table 8).

In countries where general sales tax revenues increased in absolute terms (that is, all but the Central African Republic, Dahomey, and Mali), all were buoyant with the exception of Chad. The coefficients for the taxe unique in Chad and in member countries of UDEAC, however, were all greater than those for the general sales taxes, presumably because of the exemption of taxe unique industries from the general sales tax. Revenues from sales taxes levied on imports have been generally buoyant with the exception of Gabon, Niger, Senegal, and Upper Volta.

In comparison with other major taxes the performance of sales taxation on domestic transactions is generally superior to the overall tax system. Buoyancy coefficients appear to be lower than those of total tax revenues only for Chad, Dahomey, Mali, and Upper Volta. In some of the countries where general sales taxes are more buoyant than the overall tax system the difference is large. In the Malagasy Republic, for example, the buoyancy coefficient of the former is 5.0 while that of the latter is 2.0. Although somewhat less dramatic, a similar picture exists for Niger and Senegal.

1/ Data deficiencies precluded any attempt to calculate the elasticity of the tax system, that is, the automatic response of revenues to changes in income when the tax structure is not altered.

Table 8. Buoyancy Coefficients of Major Tax Revenues 1/

	Cameroon 1966-1968	Chad 1961-1967	The Congo 1968-1971	Dahomey 1965-1970	Gabon 1967-1971	Ivory Coast 1962-1969	Malagasy Republic 1965-1971	Mali 1969-1971	Niger 1965/66-1968/69	Senegal 1962/63-1970/71	Togo 1965-1970	Upper Volta 1965-1968
Total tax revenue	1.05	3.26	1.72	2.22	0.94	1.28	1.51	1.71	0.21	1.26	1.26	--
Taxes on net income and profits	0.75	5.35	2.01	4.03	0.97	1.47	0.96	1.18	0.80	3.51	2.17	0.70
Payroll taxes	--	4.35	2.72	neg. 2/	0.51	1.98	--	4.49	--	--	--	--
Property taxes	--	--	0.64	neg.	0.30	1.39	1.05	2.31	3.10	0.65	--	neg.
Taxes on goods and services	...	2.77	2.50	0.99	1.54	1.51	2.59	neg.	1.50	3.16	2.09	neg.
General sales tax	2.11	neg.	2.04	neg.	1.34	1.69	4.55	neg.	2.38	2.79	2.08	neg.
Taxe unique	...	4.70	2.81	--	1.92	--	--	--	--	--	--	--
Excise duties	-0.35	--	6.49	0.98	--	1.32	2.09	neg.	0.59	3.37	--	--
Taxes on international trade and transactions	...	4.00	1.93	2.00	0.66	1.13	1.29	1.07	neg.	neg.	1.04	neg.
Import taxes and duties	...	4.87	2.05	1.87	0.79	1.12	1.45	1.51	0.04	0.46	0.92	neg.
Customs and fiscal duties	...	5.15	2.44	1.56	0.54	0.90	0.96	0.78	neg.	neg.	0.76	0.40
Sales taxes	...	1.51	1.20	--	0.63	1.55	4.55	2.34	0.17	0.84	1.08	neg.
Excise duties	...	--	--	2.73	--	--	0.25	...	0.64	--	2.58	neg.
Export taxes and duties	...	1.45	1.05	3.77	0.13	1.14	0.21	neg.	neg.	neg.	1.51	1.52
Other taxes	-0.16	0.90	6.04	2.57	1.70	1.14	4.46	8.77	0.17	1.62	0.63	0.16
Poll and personal taxes	-1.28	0.70	--	7.46	--	--	4.55	--	0.86	2.52	--	neg.
Registration and stamp duties	0.55	2.95	0.07	neg.	1.75	0.90	--	4.44	neg.	1.34	0.93	1.17

Sources: Computed from revenue data provided by country authorities and gross domestic product figures in International Financial Statistics.

1/ Coefficients derived from the formula: $b_t = \dfrac{T_t - T_{t-n}}{\frac{T_t + T_{t-n}}{2}} \div \dfrac{GDP_t - GDP_{t-n}}{\frac{GDP_t + GDP_{t-n}}{2}}$

Where b = buoyancy coefficient
T = tax revenue
GDP = gross domestic product
t = initial year
n = final year

2/ "Neg" throughout the table indicates that the coefficient is less than zero.

V. Appraisal of the Three Sales Tax Variants

This section considers some likely effects of the three main sales tax variants currently levied in francophone Africa on growth, price stability, resource allocation, and equity. No attempt is made here to discuss the effects of sales taxes as such relative to those of other types of taxes since this much broader question has been treated elsewhere at length by many authors.[1]

1. Effects on macroeconomic goals

Apart from its possible--and unknowable--effects on aggregate savings, a general sales tax may affect business investment decisions through the tax treatment of producer goods. Taxing machinery and equipment raises the cost of investment and can therefore be expected to reduce the amount of real investment: this result is generally considered undesirable in most developing countries. In addition it can be argued that a general sales tax designed to tax final consumption should exclude producer goods from tax just as it does such other inputs as land and labor. For these reasons, most sales tax laws attempt to exclude investment goods from the scope of the tax.[2]

There are several alternative methods of excluding producer goods. One is to exempt imports and sales of producer goods between manufacturers (suspension rule) as was the practice in France in 1936 and is currently practiced under the manufacturers' sales tax in Canada. This exemption system is used to some extent with the UDEAC production tax. Alternatively, manufacturers are allowed to deduct purchases of producer goods from gross sales to determine the taxable base as is partially done in Dahomey, Mali, Togo, and several other countries of West Africa. Finally, producer goods may be excluded by allowing a credit for sales tax paid on raw materials, machinery and equipment, and intermediate goods; this approach is taken under the value-added tax in the Ivory Coast, Malagasy Republic, and Senegal.

1/ For a particularly relevant discussion, see John F. Due, Indirect Taxation in Developing Economies (Baltimore and London: The Johns Hopkins Press, 1970).

2/ On the other hand, it can be argued that conditions in some developing countries are such that investment in capital goods, particularly imported capital goods, is already overstimulated by government policy. If, for example, the cost of labor in organized industry is relatively high (that is, its "shadow" price is below its market price, perhaps as a result of labor and social security legislation) while capital goods are in effect imported at an exchange rate lower than the "shadow" exchange rate, firms will be encouraged to adopt unduly capital-intensive production methods. In these circumstances, it has been suggested that levying a sales tax on capital goods may tend, albeit rather crudely, to redress the balance somewhat: see Richard M. Bird, Taxation and Development: Lessons from Colombian Experience (Cambridge, Mass.: Harvard University Press, 1970), p.120. For purposes of the present paper, however, this line of argument has not been further developed.

Conceptually, all three approaches are capable of excluding all producer goods. In practice, however, the value-added taxes and manufacturers' taxes of francophone Africa are likely to have an impact on real investment different from that of the UDEAC production tax. Assuming for the moment that under each method all producer goods are freed from tax, it would appear to be more conducive to investment to exempt producer goods rather than to tax such purchases and allow a credit or deduction at a later stage. A tax imposed on the purchase of capital goods either reduces the amount of real investment or leads to the borrowing of additional funds to meet the tax if the same amount of investment is to be carried out. If the benefit from the credits and deductions for investment goods is obtained soon after the purchase, the cost of obtaining the additional funds required to pay the tax may not be significant. If, however, there are rules prohibiting immediate and complete credits on investment goods, as there often are in practice, then the credit and deduction methods would restrain investment compared with the exemption approach, especially if capital purchases are large relative to an enterprise's size of operations.

In reality, however, there is no full exclusion of producer goods under any sales tax in francophone Africa, and there are major differences in the three sales tax variants regarding their treatment of producer goods. The production tax in UDEAC countries, for example, exempts only domestic purchases of raw materials and intermediate goods. Manufacturers requiring machinery and equipment or other items unavailable locally must import them, with no credit allowed at a later stage.

On the other hand, the manufacturers' tax levied in many West African countries provides differential treatment to producer goods according to the type of good rather than its origin. Following the physical ingredient rule, only purchases of raw materials and intermediate goods that are physically incorporated into the final product are deducted from gross sales in the computation of tax liability. Capital equipment, whether domestic or imported, is therefore not deductible from taxable sales.

The value-added tax in Ivory Coast, the Malagasy Republic, and Senegal comes closest of the three variants to the overall exclusion of producer goods. Credits are allowed for all tax paid on previous transactions during the production process regardless of origin or degree of incorporation in final product. The value-added tax differs from the manufacturers' tax in that capital equipment is excluded and differs from the UDEAC tax in that imported producer goods are excluded. Thus, from the point of view of investment the value-added tax appears to offer the greatest incentives. This, however, is more a result of tax design than any inherent advantage in the tax credit system. Although it would be more cumbersome administratively, exemptions could be extended to all producer goods in the UDEAC countries and purchases of capital equipment in many West African countries could be deducted from gross sales to achieve approximate equivalence with the value-added tax treatment of producer goods. If this were done the exemption system would, as argued above, appear to favor investment most. (Whether such favoritism is desirable or not depends, of course, upon such factors as whether exchange rate policy subsidizes capital relative to labor.)

Another feature of the sales tax systems in some francophone African countries that may affect the rate of economic growth slightly is the ambiguous treatment of exports. All three variants of sales taxation in francophone Africa are intended to be levies on final consumption. It is therefore appropriate to exempt exports from the domestic sales tax. This is, in fact, done in all countries. The objectives of this exemption are somewhat circumvented, however, by the continuing use of export sales taxes introduced prior to independence. In effect, exports are explicitly exempted from the sales tax and then taxed through a separate levy by the customs administration. Since these levies are on the f.o.b. value of all exports including manufactured goods, the usual arguments for export taxes on, for example, major agricultural export commodities do not seem relevant.1/ It would therefore seem appropriate to eliminate sales taxes on exports in order to enable the export exemption under the domestic sales tax to attain its objective of taxing final consumption. In view of the limited revenues that such taxes have produced in recent years, the revenue implications of this recommendation seem minor.

More broadly, in countries such as those in francophone Africa, where income taxation is inevitably limited in scope, an appropriately designed sales tax may be a useful fiscal policy instrument. Consider, for example, a general sales tax levied on all consumer transactions (with no exemptions except for producer goods and exports) at a uniform ad valorem rate. A uniform rise in the general price level would then lead to a proportionate increase in sales tax revenue. If, however, exemptions are allowed for items such as basic foodstuffs which have relatively low income elasticities, a uniform increase in real income would yield a larger percentage increase in revenue. The same effect may be achieved by taxing at higher rates goods and services with a higher than average income elasticity of demand. A sales tax that exempts necessities and taxes luxury goods at relatively higher rates ought therefore in principle to possess a substantial degree of built-in flexibility.

1/ See Richard Goode, George E. Lent, and P. D. Ojha, "Role of Export Taxes in Developing Countries," Staff Papers, 13 (November 1966): pp. 453-503.

Since the sales tax systems of francophone Africa are characterized by basic exemptions and rate differentiation, their design may well increase their responsiveness to changes in money income levels. As noted earlier, in 7 of the 15 countries the general sales taxes (and their substitutes) registered buoyancy coefficients greater than one, which means that sales tax receipts grew faster than money income as a result of increases in output and prices (including inflation). While the effects of discretionary changes cannot be separated, these results are at least not inconsistent with the hypothesis that generally sales taxes like those in francophone Africa should have an income elasticity greater than unity. There would appear to be no significant differences among the three variants in this respect.

2. Effects on resource allocation

Sales taxation may affect the allocation of resources in the production process by altering the composition of consumer goods or the input mix. If the tax is not uniformly levied on all consumer transactions (as a result of exemptions or rate differentiation) relative prices are altered and there is a shift in demand in favor of those items that are taxed at lower rates. Consequently, more resources are channeled into the production of the lightly taxed items relative to the heavily taxed items. Similarly, if the tax fails to exclude all producer goods, relative factor prices will be altered, and there will be a shift in demand in favor of the excluded factors. Consequently, the input mix will be altered and labor will be used more intensively in the production process.

The sales tax thus alters the relative prices of consumer goods and factors of production. This change may or may not be desirable depending upon whether the market prices of consumer goods and factors reflect their true marginal cost to society. If they do, the change in relative prices as a result of the tax alters the optimal allocation of resources and results in a loss of economic welfare. On the other hand, if there are already distortions in the economy and the market prices for consumer goods and factors of production do not reflect their true marginal cost to society, then the introduction of a nonneutral tax may sometimes help bring about a more desirable resource allocation. Taxing luxury items (i.e., goods that are income elastic), especially such leisure complements as alcoholic beverages, at relatively higher rates than necessities will, for example, encourage the transfer of resources into the production of the latter, which may approximate more closely social and development needs. Similarly, the tax system may be designed to apply higher rates to imports in order to encourage the development of domestic resources and stimulate import substitution. Combining these two policies to tax luxury imports will, however, have the presumably undesirable result of stimulating domestic production of luxury goods.

In almost every francophone African country the normal rate levied on the sales of manufacturers is equal to or less than the sales tax rate applied to equivalent imported goods (see Table 5). The tax element in the final price of items to the consumer also includes all import duties and taxes on imported merchandise and, for domestic items, any taxes levied on producer goods employed in the manufacturing process. As shown above, the latter consideration is most significant for the production and manufacturers' taxes.

Since the sales tax on domestic transactions is generally restricted to the manufacturing stage while imported items are subject to several import taxes in addition to the sales tax it would be reasonable to expect that a substantial degree of effective protection is afforded by the tax systems of francophone Africa. In some of these countries the relative treatment of imports and locally produced goods is further complicated as a result of the continued application of outdated levies on imports and the proliferation of new sales taxes on the same base. In some countries the sales taxes which were levied on imports prior to independence have been simply consolidated with other import taxes, which again complicates the task of determining the effective tariff rates and setting appropriate protective policies. The result may well be a nonoptimal allocation of resources between imported and locally produced goods and between luxury goods and others. These effects could be avoided and simplicity introduced into the overall tax system by removing the protective features from the sales tax and the special taxes on imports and allowing imports to be subject to sales tax at the same rates as domestic products.

Another issue concerns the stage in the production and distribution process at which the tax is to be collected. The appropriate choice depends upon the organization of production and distribution, the structure of economic activity, and the resources available for tax administration. In francophone African countries, where manufacturing is largely in the hands of a few large companies, where imports are relatively important, and where the resources available for tax administration are scarce, a manufacturers' tax with a corresponding levy on imports seems appropriate. The manufacturers' tax levied extensively throughout West Africa is particularly well suited for this situation. In addition, the value-added taxes in the Ivory Coast and Senegal have been generally restricted to manufacturers, and the production tax in the UDEAC countries applies principally to producers as a result of specified exemptions. Furthermore, the <u>taxe unique</u> in the UDEAC countries is levied solely on producers. All of these taxes are thus collected mainly at customs and from the larger producers.

The stage(s) in the production and distribution process at which tax is levied may also be important for other than administrative reasons. Different taxes, by discriminating between different forms of business enterprise, can affect methods of doing business as well as production processes--a result which is presumably undesirable unless there is good reason to believe the contrary. With cumulative taxation, for instance, there is an incentive to alter the organization of production and distribution by integrating vertically, which may deny the economy advantages of specialization and economies of scale and therefore constitute a misallocation of resources. To some extent cumulative taxation has been avoided in all the sales taxes in francophone Africa by the use of deductions, exemptions, and credits. Nevertheless, cumulative taxation could be further reduced, if desired, by exempting imported raw materials in the UDEAC countries and by extending the deduction principle to include capital goods in most West African countries.

3. Effects on distribution

The incidence of a sales tax depends on whether the tax is shifted backward to the factors of production, shifted forward to consumers, or shared among the different sectors according to the elasticities of supply and demand. Although the issue is open to some discussion, it is generally accepted that sales taxes are borne primarily by final consumers. The most common objection to sales taxes is therefore their regressivity relative to income, which occurs because the average propensity to consume in lower income groups is relatively larger than in higher income groups. While this point should not be overdone in countries in which a large part of the consumption of the poorest groups takes place outside the market economy--and thus outside the scope of the sales tax--the potential regressivity of sales taxes over a large group of the population is still a matter of concern.

The structure of a sales tax may be designed to reduce regressivity by: (1) extending the tax to include purchases of services; (2) exempting food, medicines, and other necessities which represent a relatively higher proportion of consumer expenditure of the lower income groups; or (3) taxing luxury items at high rates. The rationale for these measures is fairly straightforward. Personal services and luxury items represent a larger proportion of consumption expenditure of the higher income groups than the lower. Consequently, including services and taxing luxury items at higher rates increases the percentage of income paid in taxes by the higher income groups. Exempting foodstuffs and other basic necessities reduces this percentage for lower income groups.

In general, the sales tax systems of francophone Africa have structural features that reduce regressivity. Virtually all of them tax a wide range of personal services, while 9 of the 15 exempt basic foodstuffs, and a number have increased rates on some luxury items (at least when imported).

Although the UDEAC countries do not specifically exempt foodstuffs, some relief is accorded lower income groups through the exemption of all unprocessed primary products of domestic origin. The value-added tax in the Malagasy Republic not only exempts basic foodstuffs but a number of household items including soap, firewood, and charcoal. In other countries (including Senegal and Chad) where basic foodstuffs are not exempt, the degree of regressivity is reduced by taxing them at lower than normal rates. In Chad a rate of 10 per cent is applied to milk products, 5 per cent on locally processed edible oils, and 3.5 per cent on local rice.

Services are also generally taxed at rates higher than those on manufactured goods. From the nominal rates listed in Table 5, the rate differentiation between services and goods appears to be the largest in the UDEAC group, where most services are taxed at rates ranging from 12 per cent to 14 per cent while the normal rate on manufactured goods ranges between 6.5 per cent to 10.5 per cent. Since under the UDEAC production tax no deduction is allowed for either goods or services, a direct comparison of the rates applied to goods and services is meaningful.

In contrast, in those countries with a manufacturers' tax or a value-added tax the standard rates on services are equal to or even less than the nominal rates on manufactured items. This does not necessarily mean, however, that services in these countries are taxed relatively more lightly because in all cases, with the exception of the Ivory Coast, the tax on services applies to the sales price to consumers, with no deduction or credits allowed for taxes paid on inputs used in the production of those services. In these circumstances, if the tax rates applied to goods and services are the same, services are in fact taxed at relatively higher rates because manufacturers may deduct from the sales price the value of physically incorporated materials that were previously taxed. Consequently, the tax element in the price to consumers will be less for the manufactured good than for personal services. Where the nominal rate on services is lower than on goods, the effective differentiation of rates depends on the spread of the nominal rates and the amount of physically incorporated materials that are deducted from the sales price.

With the value-added tax one would expect (with equal rates) the effective differentiation in the rates applied to goods and services to be higher. Not only is there a credit for tax paid on physically incorporated materials, but there is also a credit for tax paid on capital equipment and services in the production process. In Senegal, for example, where the nominal rates on goods and services are the same, it is clear that because of the tax credits there is a larger tax element in the consumer price of services than in goods. In the Ivory Coast, where the nominal rates are almost the same, the same conclusion cannot be drawn, however, because, as noted above, service enterprises may opt to enter the tax circuit and receive credits on inputs taxed in the production of those services.

4. Conclusion

As the economies of francophone Africa grow, it seems likely that, as in other developing countries, sales taxation will come to play a relatively larger role in the mobilization of resources for the public sector. The challenge for policymakers is therefore to design sales tax systems that will yield adequate revenues and achieve other economic objectives while being simple enough to be administered effectively.

On the whole, all three of the sales tax variants now used in francophone African countries seem reasonably suited to the environment in which they operate and the demands which are made upon them. While a number of differences between the different variants have been demonstrated in this paper, all of these taxes are fundamentally confined to the manufacturing stage and importers, so that their similarity outweighs their differences with respect to most policy objectives. If countries wish to remove all elements of taxation from intermediate and investment goods and exports, however, the value-added (tax credit) approach clearly does so most precisely, although its effective implementation perhaps demands a somewhat higher level of performance from the tax administration.[1/] Although essentially the same results could be achieved in principle under the other systems, in practice, as developed above, the three variants of sales taxes do differ in the extent to which they tax intermediate materials and capital goods. Many of the present sales taxes also tax imports (and exports) in unnecessarily complex and perhaps economically undesirable ways. Nevertheless, despite these and other problems, the basic sales tax systems employed in all the francophone African countries seem, as a group, to provide a generally sound foundation for the development and extension of the taxation of domestic transactions which is likely to be a feature of the future development of their tax structures.

1/ See George E. Lent, Milka Casanegra, and Michele Guerard, "The Value-Added Tax in Developing Countries," Staff Papers, 20 (July 1973): 318-378.